* Look over S/E. on p27

1997 annual report

On track with our major expansion program to about double capacity by 1999

AT Plastics

corporate profile

AT Plastics Inc. develops and manufactures specialty plastics raw materials and fabricated products for international niche markets. These markets are less susceptible to cyclical price fluctuations, and provide consistently higher margins than commodity markets. The expansion initiatives undertaken in 1996 through 1998 position AT Plastics for international growth in each of its businesses - Polymers, Films and Packaging.

AT Plastics' shares trade on the Toronto Stock Exchange ("ATP") and the American Stock Exchange ("ATJ").

mission statement

AT Plastics' mission is to be a profitable, growing, environmentally responsible, international manufacturer of high-quality specialty plastics, deploying advanced technologies and innovative solutions to meet the needs of its valued customers.

core competencies

Technological Focus

Ability to be a fast, focused and innovative integrator of advanced technologies and skills in all business processes, to provide quality, value-added specialty products.

Committed Employees

Ability to develop and maintain a flexible and highly-motivated workforce, known for its innovation, service to customers and dedication to continuous improvement.

Customer Responsiveness

Ability to be a perceptive and responsive organization to customers' evolving needs and requirements.

Except for the historical information contained herein, the matters discussed in this annual report include forward-looking statements which involve risks and uncertainties, including but not limited to selling prices and raw material costs, economic, competitive, governmental and technological factors affecting the Company's operation, markets, products, service and prices, and other factors discussed in the Company's filings with the U.S. Securities and Exchange Commission and Canadian regulatory authorities.

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operating highlights

Expansion Program

Films and Packaging

Films - the expanded and upgraded films plant in Edmonton began production in March 1997, enabling introduction of a new generation of multi-layer wide-width greenhouse and silage films. Modifications substantially reduced unexpected capacity constraints by year end.

Packaging - completed the first stage of expansion of the Company's Packaging business in Brampton, Ontario in February 1998, with the final stage to be completed early in the spring of 1998.

Specialty Polymers and Compounds

Powerguard™ - in March 1997, selected site in Peachtree City, Georgia for a new specialty compounds plant to produce Powerguard™ advanced insulation compounds for medium voltage underground power cables. The plant is scheduled for completion in late summer 1998.

We target sales capacity of $400 million by the year 1999.

Flexet™ - In November 1997, began production of our proprietary Flexet™ plumbing and radiant heating pipe specialty compounds near Chicago, Illinois.

Copolymers - Expansion of copolymers plant in Edmonton continued on schedule for completion in the fall of 1998, to increase production capacity by 60,000 tonnes, to 145,000 tonnes annually, and sales capacity by $100 million based on 1997 average selling prices and product mix.

Operations

Completed ISO 9002 certification of the Brampton packaging operation in 1997 and ISO 9001 certification of the Polymers business at Edmonton and the Brampton Technical Centre in January 1998.

Expanded program for employee participation and empowerment to align personal and business objectives.

Ratified four-year labor agreement at the Edmonton site.

Sales by Business
(percent)

Polymers 62%
Films & Packaging 38%

AT Plastics applies its competitive strengths in the development and production of specialty plastics raw materials and fabricated products to satisfy increasing demand from customers, primarily in North America, South America and Australasia. The Company is about doubling its sales capacity and expanding its research and technology capabilities in response to strong demand for its products.

Polymers

AT Plastics manufactures specialty polymers and compounds which in turn are used to make specialty plastics products.

Markets: U.S., Canada, Australasia, Mexico and South America

Applications: Laminating, Wire & Cable, Adhesives, Automotive Parts, Packaging, Pipe, Athletic Shoes and Medical Products

Competitive Advantages

Thermal laminating films and hot melt adhesives replace solvent-based products - more economical and environmentally friendly

Flexet™ compounds developed by AT Plastics replace copper pipe and other materials in plumbing and radiant heating applications – more economical, easier to install

PowerGuard™ advanced insulation compounds developed by AT Plastics satisfy the growing demand by power utilities for underground medium voltage cable – provide longer life as indicated by extensive accelerated testing

Aqua-Link® ethylene vinyl silane copolymers are used in the insulation of low voltage electrical wire – provide customers with lower manufacturing costs through productivity gains compared to alternative technologies

Sales Capacity Increases*

Copolymers: $100 million

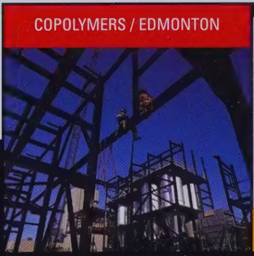
Fall of 1998 Completion: *Edmonton copolymers expansion*

Specialty Compounds: $50 million

Completed: Pipe compound facility near Chicago, Illinois with commercial production of Flexet™ compounds commenced in November 1997

End of Summer 1998 Completion: *Peachtree City, Georgia PowerGuard™ medium voltage power cable insulation facility*

*(*based on 1997 average selling prices and product mix)*

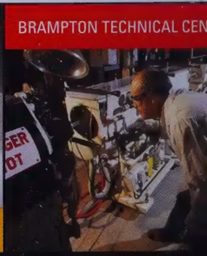


COPOLYMERS / EDMONTON

SILAGE BAGS / ARGENTINA

SPECIALTY COMPOUNDS / CHICAGO

CEREAL PACKAGING



BRAMPTON TECHNICAL CEN

Films

AT Plastics manufactures specialty agricultural and horticultural films

Markets: Canada, U.S., South America and Australasia

Applications: Agricultural and horticultural including greenhouse, nursery and agricultural films, silage films and bags

Competitive Advantages

Use of technology to meet market needs

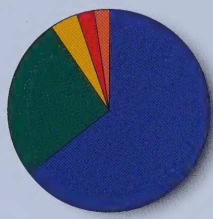
Lastic-Tube® silage bag developed by AT Plastics, used by farmers to increase herd yields

Super Dura-Film® 3-layer new generation film developed by AT Plastics for greenhouse cladding – improved durability and strength compared to other horticultural films

AT Plastics at a glance

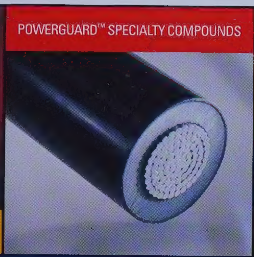
- Sales Offices and Plants
- Markets

Sales by Market
(percent)



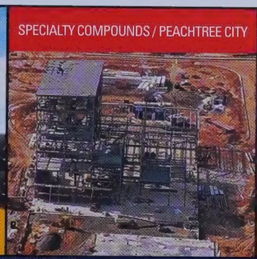
- United States 64.4%
- Canada 26.1%
- Australasia 4.3%
- South America 2.8%
- Rest of World 2.4%

AMPTON TECHNICAL CENTRE

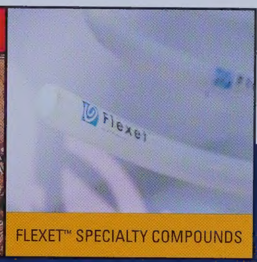


POWERGUARD™ SPECIALTY COMPOUNDS

BULK PEATMOSS BAGS



SPECIALTY COMPOUNDS / PEACHTREE CITY



FLEXET™ SPECIALTY COMPOUNDS

Packaging

AT Plastics manufactures specialty industrial and consumer packaging

Markets: U.S., Canada

Applications: Industrial shipping sacks, industrial shingle wrap and form-fill-seal films, barrier films for food products

Competitive Advantages:
Use of technology to customize products to satisfy users' needs

Milpac® heavy duty shipping sacks and industrial films used for packaging roofing shingles, fertilizers, peatmoss, chemicals, polymers, insulation and explosives

Performance Multi-Layer Films offering barrier properties which help retain food flavour - replaces more costly and complex paper/plastic products

Films & Packaging Sales Capacity Increase*: $40 million

Completed:
Edmonton horticultural and agricultural films expansion in March 1997

Completed:
First stage of Brampton packaging expansion in February 1998

Spring 1998 Completion: *Second stage of packaging expansion*

(*based on 1997 average selling prices and product mix)

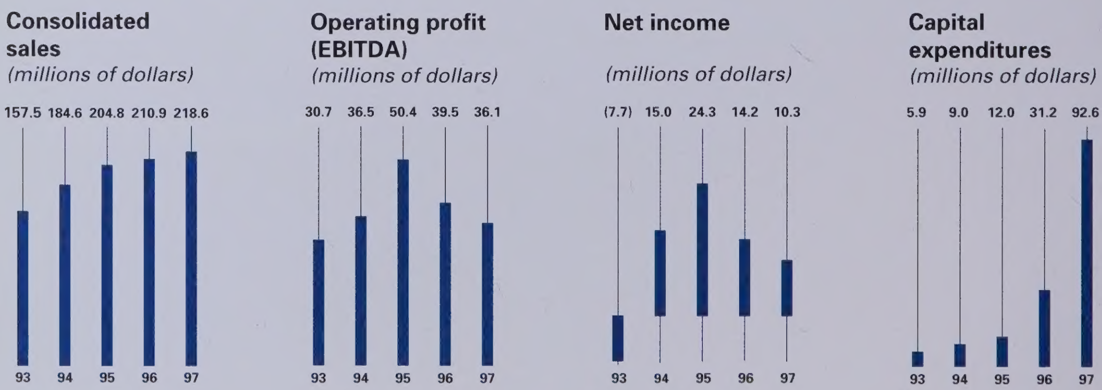
financial highlights

- Sales increased despite production constraints during the major, broadly based expansion program scheduled for completion in the fall of 1998.
- Earnings reduced by costs related to the expansion program.
- Paid a quarterly dividend of 4.5 cents per share each quarter.
- In May 1997, AT Plastics completed a debt financing consisting of two series of senior secured debentures totalling $70 million and a $75 million confirmed secured revolving bank facility.
- In February 1998, the Company entered into an underwriting agreement and filed a preliminary prospectus to issue 2,350,000 common shares for gross proceeds of $25,262,500.

(in millions of dollars except per share amounts)

Years ended December 31	**1997**	1996
Sales	**218.6**	210.9
Net income	**10.3**	14.2
EBITDA*	**36.1**	39.5
EBITDA per share	**2.36**	2.74
Net income per share	**0.68**	0.98
Cash flow	**27.1**	30.7
Cash flow per share	**1.77**	2.13
Dividend per share	**0.18**	0.18
Total assets	**358.2**	273.4
Total debt	**157.7**	90.8
Shareholders' equity	**154.5**	146.9
Capital expenditures	**92.6**	31.2

**earnings before interest, taxes, depreciation and amortization*



objectives and 1997 performance to objectives

Financial Objectives

Increase consolidated sales by an average of more than 10% per year over the next five years.

Achieve a greater than 15% after-tax return on equity on a rolling five-year basis.

Reduce total debt to 40% of total capitalization.

1997 Financial Performance

Completed two of five components of an expansion program which will about double sales capacity to $400 million by the year 1999.

Achieved an average 14.7% per year return on average equity over the period 1995-97. The return on equity has been reduced in the short term by costs related to the expansion program.

Target relaxed temporarily to reduce equity dilution until expansion comes on stream.

Operating Objectives

Maintain focus as a manufacturer of both specialty plastics raw materials and fabricated products operating in international niche markets.

Strengthen the technological and competitive position of the Company through strategic alliances.

Increase production capacity to support the Company's growing sales, by expanding existing facilities and developing alliances with other companies and making appropriate acquisitions.

Provide employees with a safe working environment in which they are encouraged to use their abilities and resources to achieve Company and personal objectives.

1997 Operating Performance

Completed facility to produce specialty compounds near Chicago, Illinois and began production there of Flexet™ specialty compounds for plumbing and radiant heating pipe.

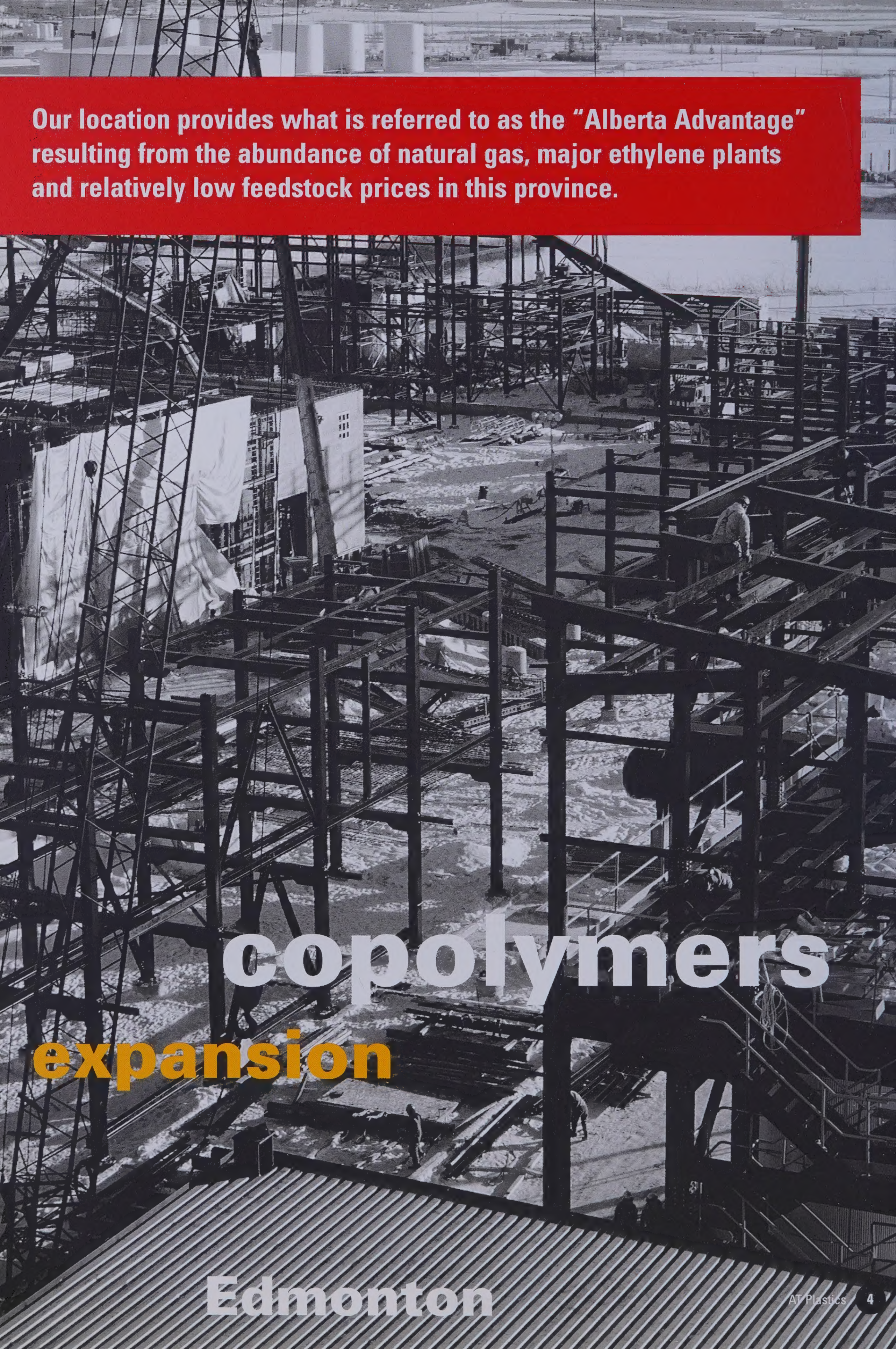
Expansions completed in Films and in startup phase in Packaging.

Expanded the Company's research and technology program and continued to develop alliances with key customers and suppliers to strengthen development of new and improved products and manufacturing processes.

Expansion of the Edmonton specialty copolymers plant is well underway and scheduled for completion in the fall of 1998. Construction of plant to produce PowerGuard™ for underground power cable is scheduled for completion in late summer 1998.

Implementing "self directed work teams" concept at Peachtree City, Georgia plant.

Expanded program for employee participation and empowerment to align personal and business objectives.



Our location provides what is referred to as the "Alberta Advantage" resulting from the abundance of natural gas, major ethylene plants and relatively low feedstock prices in this province.

copolymers

expansion

Edmonton

message to shareholders

We made good progress in 1997 with our five-part expansion program which will about double sales capacity from the 1996 level, to $400 million, by the year 1999. By the end of this year, we will have completed the expansion of all three businesses – Polymers, Films and Packaging. We will ramp up production throughout 1999 and plan to progressively return operating profit margins to levels achieved prior to the expansion program.

We are leveraging our innovative product development and process engineering capabilities through this broad-based expansion of our production facilities. We have been operating at full capacity for a number of years, increasing revenue and margins through production efficiencies and a shift in product mix. With this expansion, we can capitalize on the increasing demand we are experiencing from the growing operations of existing customers, and new customers, serving markets in North America, South America and Australasia.

Our research and technology (R&T) capabilities are fundamental to our success. We are a focused and innovative integrator of advanced technologies and skills in all business processes, developing and producing specialty plastics which exactly meet our customers' needs. Over the 1996/97 period we increased our R&T staff and upgraded and enhanced our laboratory and testing facilities. For 1998, we have budgeted $6.0 million for R&T.

"1997 was the second year of implementing our expansion program. From engineering to design to construction to startup, our program has been proceeding substantially on schedule with two projects completed, and three to go. Given the major scope of the program - we are expanding all three businesses within two years - our progress is a strong testament to the motivation, dedication and quality of our people." **J. G. (Geoff) Clarke.** *President & Chief Executive Officer*

In recent years, we have steadily increased specialty products as a percentage of consolidated sales. Specialty copolymers for such markets as laminates, adhesives, wire and cable, and packaging products, provide higher and more stable margins than do commodity products throughout economic cycles. We continue to increase the value added features of our products, in response to customer needs, and the introduction of Flexet™ and PowerGuard™ specialty compounds is expected to further reduce cyclicality. Flexet™ compounds are for plumbing and radiant heating pipe, and Powerguard™ compounds are for medium voltage underground power cable insulation.

Our customers range from manufacturing companies which use our specialty copolymers and packaging to produce or package their products, to growers and farmers who use our greenhouse films and silage bags.

Our goal is to be a world class producer of specialty plastics products, well positioned to capitalize on growing demand driven by our customers' expanding needs and new demands in global niche markets. This expansion program is part of an overall strategy to achieve this goal.

Other important aspects of this strategy include the securing of adequate ethylene supplies at attractive rates for our expanded specialty copolymers production in Edmonton and for future expansions. In 1996, we entered into a 15-year contract for ethylene, with provision for additional supplies for expansion at favourable rates. Our location provides what is referred to as the "Alberta Advantage" resulting from the abundance of natural gas, major ethylene plants and relatively low feedstock prices in this province. Resins for our films and packaging and specialty compounds are readily available.

Another part of our strategy is to be a preferred provider, and to this end we have been working towards ISO certification throughout all of our operations. The Polymers business, at Edmonton and the Brampton Technical Centre, is ISO 9001 certified and Films and Packaging operations are ISO 9002 certified. This certification ensures the discipline of process which enables us to consistently achieve the highest standards of product development and production.

From a sales base of $5 million in 1997, we target a sales increase for Flexet™ of two to three times in 1998.

Expansion program

In 1997, we completed expansion of our facility for horticultural and agricultural films in Edmonton, and the startup of our specialty compounds facility near Chicago, Illinois, to produce Flexet™ specialty compounds. By the end of 1998, we will have completed expansion of our copolymers complex in Edmonton, supplying our growing specialty markets. We also will have completed expansion of our packaging operation in Brampton, and startup of our new specialty compounds facility in Peachtree City, Georgia to produce Powerguard™ specialty compounds for wire and cable insulation.

Since completing the expansion and upgrading of our Edmonton horticultural and agricultural film plant at the end of the first quarter of 1997, we have been producing a new generation of multi-layer greenhouse and silage films which have been well received by customers. These products are used in our Super Dura-Film® greenhouse film and AgriPac® silage bags which have superior strength and toughness at thinner gauges than conventional polyethylene films. These new higher performance products have helped us to accelerate sales growth in markets including South America.

The new specialty compounds facility near Chicago, Illinois began commercial production of our Flexet™ specialty compounds in November. Most of the regulatory and technical approvals for this product have been achieved, and its acceptance by customers in Canada and the U.S. was confirmed by sales of $5 million in 1997. From this base, we target sales increases of two to three times in 1998.

"When the expansion program is completed, we will be a much larger company with a broader product range, greater international reach, higher productivity, and the ability to further increase capacity cost effectively."

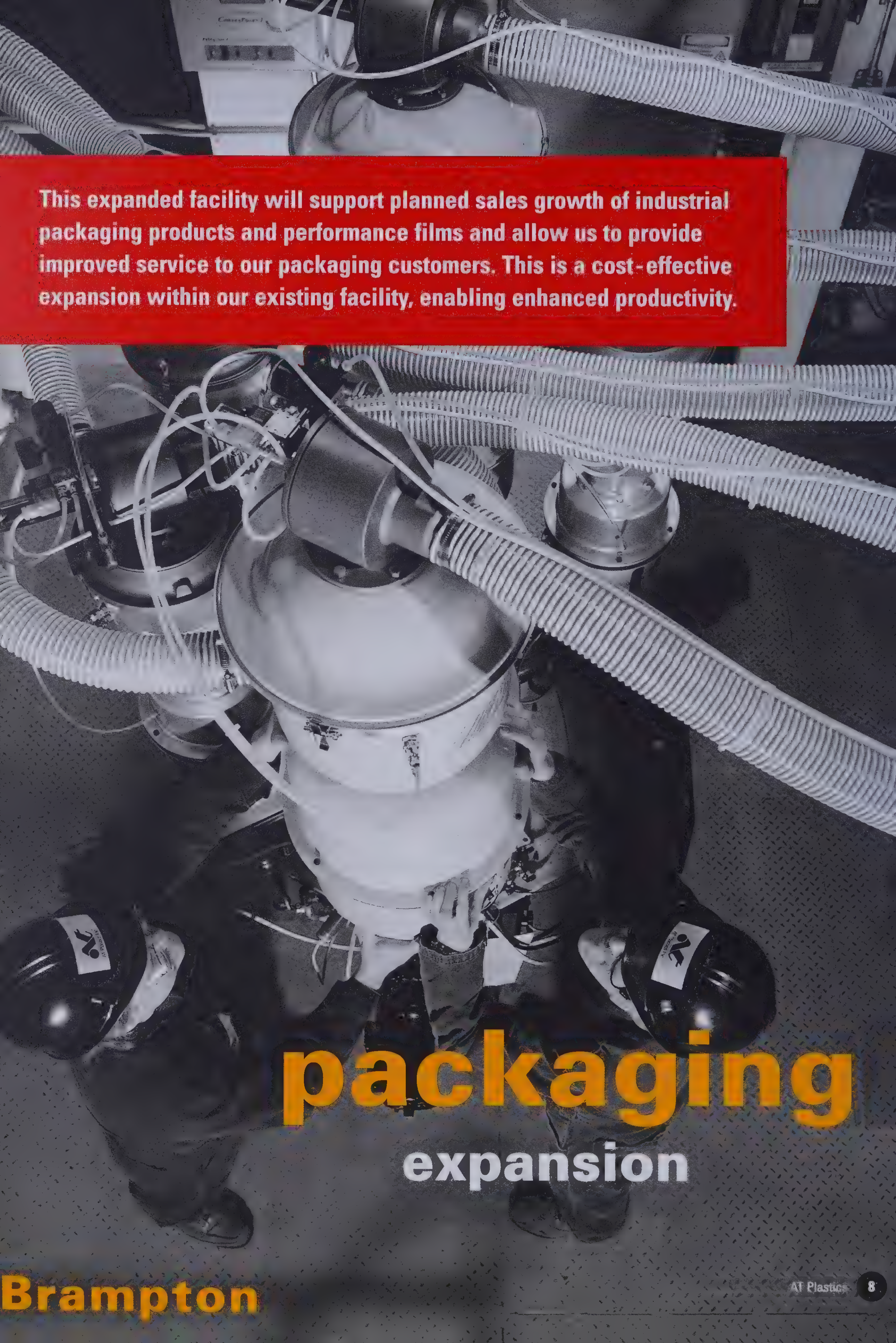
The packaging expansion at our Brampton facility is well underway. The expanded extrusion capacity began coming on stream in February 1998 and the new printing facility will be up and running in the second quarter. This facility will support planned sales growth of shipping sacks and performance films and allow us to provide improved service to our packaging customers. This is a cost-effective expansion within our existing facility, enabling enhanced productivity.

We target completion of the last two parts of our expansion program by the fall of this year. By late summer, we expect commercial production of our PowerGuard™ medium voltage power cable insulation materials from the new specialty compounds facility in Peachtree City, Georgia, which further processes the specialty polymers received from our plant in Edmonton. This facility will enable us to make deliveries by bulk hopper cars. As 90% of this market is supplied in bulk, we will therefore have the capability to substantially increase sales.

The largest part of this expansion program is the expansion of our Edmonton copolymers plant. This will increase production capacity of specialty ethylene copolymer plastic raw materials by 60,000 tonnes, to 145,000 tonnes when completed on schedule this fall.

This comprehensive expansion program has been an ambitious undertaking, but an essential one to enable us to grow with our customers, and to develop new products and penetrate new markets. When completed, we will be a much larger company with a broader product range, greater international reach, higher productivity, and the ability to further increase capacity cost effectively.

As might be expected with an undertaking of this magnitude, we have had our engineering and other challenges, but we have made every effort to minimize disruption to operations, and costs. For example, the increasing specialization of our products has required more sophisticated engineering and design of process equipment, and we elected to outsource until our own equipment is installed, rather than upgrade existing facilities as a temporary measure. As a result, we have been able to meet customers' quality standards and to maintain our position in niche markets.



This expanded facility will support planned sales growth of industrial packaging products and performance films and allow us to provide improved service to our packaging customers. This is a cost-effective expansion within our existing facility, enabling enhanced productivity.

packaging expansion

Brampton

Construction activities for the copolymers expansion at Edmonton continue on schedule for a fall 1998 startup. However, engineering costs and the two final contracts are coming in over budget and the fixed capital cost is now estimated to be approximately $15 million higher than the control estimate established in January 1997. The additional costs are largely related to the complexity of the project, resulting from the increasing specialization of the product range over the past few years. This facility is designed to be expanded by up to 15% to meet future market growth with an expenditure of approximately $5 million.

Financial Review

During 1997, the full benefit of continued strong demand in our core business was not realized due to capacity constraints. Consolidated sales increased by 3.7% to $218.7 million, from $210.9 million in 1996. Sales to the U.S. market increased substantially, reflecting our growing position in this market. However, sales in Canada and other markets declined due to lack of capacity.

Net income was $10.3 million or $0.68 per share for 1997, compared with $14.2 million or $0.98 per share in 1996, as a result of higher operating costs from the strategic initiatives required to facilitate the success of the expansion program. As the expansion program nears completion in 1998, earnings will continue to be under pressure. It will take time to develop specialty markets for the full 60,000 tonnes of expanded capacity at our Edmonton copolymers plant. We therefore anticipate a temporary shift in sales toward a less specialized mix of products while we build our specialty markets. Over time, earnings will benefit from a shift back to a more specialized mix of products, in addition to the near doubling of production capacity and increasing productivity.

"Our increasing technological capabilities will facilitate accelerated development and production of new products, both raw materials and fabricated products. These new products will replace more traditional products by virtue of their superior properties and performance."

Strategy and Outlook

Our strategy is to focus on North American, South American and Australasia niche markets with a range of value-added, specialty plastics. We remain focused on markets where we believe our proprietary technical expertise and customized approach to meeting customers' needs will result in significantly higher margins than are available to commodity plastic raw materials and fabricated product manufacturers.

Our increasing technological capabilities will facilitate accelerated development and production of new products, both raw materials and fabricated products, that replace competing products by virtue of their superior properties and performance.

A significant benefit of supplying specialty products to international niche markets is that they are less susceptible to cyclical price fluctuations, compared to commodity products and markets.

Strong AT Plastics Team

The success of our expansion program and our ability to proactively meet demand could not be accomplished without a concerted team effort. Much credit is due to our skilled and highly motivated workforce, known for its innovation, service to customers and dedication to continuous improvement.

The expansion program has made it necessary to add employees in all areas including sales and marketing, R&T, and manufacturing. We are implementing several new human resources initiatives to ensure we provide a stimulating and rewarding environment for all our employees. For example, self-directed work teams will be employed in the greenfield Peachtree City, Georgia, facility. I am particularly pleased with our new initiatives

Edmonton films

Since completing the expansion and upgrading of our Edmonton horticultural and agricultural film plant at the end of the first quarter of 1997, we have been producing a new generation of multi-layer greenhouse and silage films which have been well received by customers.

on safety and safety training and I am convinced that this effort will help us meet our longer term health and safety objectives. An important milestone was the completion of 300,000 construction man hours on the copolymer expansion project without a lost-time injury.

The strength and commitment of our workforce combined with the improved technology and increased capacities provided by the expansion program, give us increased confidence in our ability to meet our customers' evolving needs and the growing international demand for specialty plastics.

We expect continued growth in specialty plastics, and we will have the ability to further expand our new facilities on a cost-effective basis.

Acknowledgements

On behalf of our Board of Directors and management, I would like to thank all our employees for empowering AT Plastics with the energy and expertise required to successfully implement the expansion program, while at the same time operating our core business. As a result of their dedicated efforts and valuable contributions, we are well positioned to become a world class producer of specialty plastics for global markets. I want to make special mention of John Beaton, Vice President, Research & Technology, who recently passed away after a long illness. John made a significant contribution to our progress and his counsel, enthusiasm, and commitment will be very much missed.

I would like to thank our Board for their invaluable expertise, support and guidance in this particularly challenging but rewarding period at AT Plastics.

I would also like to thank our shareholders for their support in this very exciting stage of development. We are confident their patience will be rewarded by significant growth once the expansion program is completed. We are committed to building value for all shareholders.

JG Clarke.

J. G. (Geoff) Clarke
President & Chief Executive Officer

March 9, 1998

The following discussion and analysis for the years ended December 31, 1997 and 1996 should be read in conjunction with the comparative financial statements of the Company included herein.

Results of Operations

Consolidated sales in 1997 increased 4% to $218.6 million, compared with 1996 sales of $210.9 million. Demand was strong for most of the Company's products but sales were constrained by lack of capacity. Prices were generally higher than in 1996 reflecting this strong demand.

Sales to the U.S. increased substantially, reflecting the Company's growing position in this market. Sales to Canada, and other markets declined due to lack of capacity.

Operating profit (earnings before interest, taxes, depreciation and amortization) decreased 9% from $39.5 million in 1996 to $36.1 million in 1997. The reasons for this decline are discussed more fully under the individual business headings.

Net income for the year decreased to $10.3 million, or $0.68 per common share, from $14.2 million, or $0.98 per common share in 1996. This decrease reflects the lower operating profit, costs related to the change in location of the Packaging expansion, costs related to a potential acquisition which did not proceed and a higher effective tax rate partially offset by lower net interest costs. In 1996, net income included a gain on the redemption of preferred shares. The higher effective tax rate in 1997 is due to a significant increase in Large Corporation Tax resulting from the additional capital raised to finance the expansion program. Lower interest costs reflect the greater capitalization of interest as the expansion program progresses.

Changes in Operating Profit (EBITDA)

(millions of dollars)	**INCREASE (DECREASE) 1997 Compared with 1996**
Higher polymers selling prices and mix	**2.1**
Lower polymers sales volume	**(3.4)**
Lower ethylene and vinyl acetate costs	**0.4**
Higher polymers other variable costs	**(1.2)**
Higher films and packaging margins after variable costs	**0.4**
Higher films and packaging sales volume	**0.7**
Higher fixed costs*	**(2.4)**
Decrease in operating profit	**(3.4)**

* Reflects build up of sales, technical and manufacturing resources ahead of startup of expansion projects.

Polymers

In 1997, sales revenue of the Polymers business increased 1% to $137.9 million, compared with 1996, while volume decreased 5%. In 1996, sales revenue increased 5% and volume increased 14%. Sales were constrained due to lack of capacity in 1997. Production was adversely affected by a planned six-day outage to facilitate the connection to ethylene supply and power supply for the copolymers expansion, which reduced operating profit by approximately $1.0 million, and by production problems associated with manufacturing some products on existing reactors. These factors are discussed below. Above-normal inventories at the end of 1995 enabled the business to support sales in excess of production capacity in early 1996.

Average selling prices increased in 1997 compared to 1996, due to modest price increases in the second half of 1996 and the first half of 1997, reflecting the continuing strong markets and improving mix of the Company's products.

Demand for polymer products continued to be robust due to favourable economic conditions in most of the target markets, particularly the U.S. Demand in the Asian market was modestly affected late in the year by the financial problems in that

part of the world. However, this had little impact on the Polymers business due to its tight supply situation and the fact that these Asian markets, excluding Australia and New Zealand, represent less than 10% of AT Plastics' total sales. In addition, many of the Company's Asian customers are supplying their products to the North American and European markets and are benefiting from the currency devaluations.

Operating costs for the Polymers business have increased significantly. The higher operating costs, such as external processing, arise from maintaining positions in certain high growth markets in preparation for new capacity coming onstream on completion of the Company's expansion program scheduled for the fall of 1998. Some of these markets have performance and quality standards which are difficult to meet with existing facilities. The new copolymers plant in Edmonton is being designed specifically to make these products more efficiently. Modifying existing facilities would not be economic given the short time before the new plant begins operation. Only modest improvement was achieved in reducing the level of wide specification material and much of this higher than normal cost will only be eliminated after the startup of the copolymers expansion. Product quality and service have been maintained for our customers during this transitional period but at a very substantial cost. Additional marketing and technical resources have also been required to facilitate the success of the expansion program.

Polymers Business

(millions of dollars)	**1997**	1996
Sales	**137.9**	135.9
Operating Profit	**28.4**	31.8

Films & Packaging

Sales revenue for the Films and Packaging business increased 7% to $84.8 million, compared with 1996, while volume increased 3% reflecting strong demand for industrial packaging and horticultural and agricultural films and higher prices for the new generation horticultural and agricultural films. This business enjoyed higher sales of specialty sacks and agricultural films despite production constraints due to unexpected output limitations on the Edmonton films plant. These limitations were largely eliminated by year end. Sales of this business were also affected by the plant-wide power outage required to facilitate connection of power supply to the copolymers expansion. Sales of agricultural films to South America continued to grow as the Company expanded and consolidated the position in this market which it established in 1996. Unit margins were modestly higher due to higher margins for the new generation horticultural and agricultural films. The first phase of the Brampton packaging plant expansion commenced operation in February 1998, with subsequent phases now scheduled to commence operation by early in the second quarter of 1998.

Films & Packaging

(millions of dollars)	**1997**	1996
Sales	**84.8**	79.1
Operating Profit	**7.7**	7.7

Sensitivities of 1998 Operating Profit to Market Conditions

Prices and margins for the Company's products are influenced by market conditions.The following table indicates the sensitivity of operating profit to some of these factors.

Estimated Annual Increase (Decrease)

(millions of dollars)	**Increase (Decrease) in Operating Profit**
Increase of U.S. 1¢/lb in price of EVA copolymers	**1.7**
Increase of Cdn. 10¢/GJ in cost of natural gas	**(0.6)**
Increase of Cdn. 5¢/kg in cost of vinyl acetate monomer	**(0.7)**

Liquidity and Capital Resources

Cash provided from operations before changes in working capital and other liabilities amounted to $27.1 million in 1997, compared with $30.7 million in 1996. Working capital and other liabilities increased by $3.4 million compared to $8.4 million in 1996. Films inventories were unusually high at the end of 1997 due in part to steps which had to be taken in connection with the expansions on the site. These steps include maintaining higher levels of unreclaimed scrap and safety stocks of resins. Management expects that inventories will return to normal levels by mid 1998. Construction payables were also abnormally high due to the expansion program.

The Company issued $70 million of debentures due in 2009 in two tranches, with interest rates of 7.87% and 7.05%, respectively, as part of the financing for the capital program. These debentures are secured and rank pari passu with the balance of the Company's debt. In addition, a five-year revolving term bank facility also secured and ranking pari passu in the amount of $75 million was arranged with a group of Canadian banks. No drawing on this credit was outstanding at year end.

Repayments of $6.1 million on the long-term debt and capital leases were made during the year.

In 1997, the Company invested approximately $93 million on the purchase of fixed assets as implementation of the Company's growth plan continued to accelerate. While the expansion program is largely on schedule, cash expenditures are occurring later than anticipated. Expenditures of approximately $120 million, including capitalized interest, are planned for 1998 to complete the expansion program as well as sustenance capital expenditures.

The expected expenditures on fixed assets required to complete the Company's copolymers plant expansion are now estimated to be approximately $15 million higher than the estimate of $130 million established in January 1997.
The additional costs are largely related to the complexity of this project resulting from the extent of specialization of the product range over the past few years. In addition, cash flow from operations has fallen short of expectations. This is due to the higher operating costs from strategic initiatives required to facilitate success of the expansion program and the materially slower than expected development of sales for some new Polymers and Films & Packaging products. The new copolymers facility is designed to be expanded by up to 15% with the additional expenditure of approximately $5 million and the higher output should preserve the expected financial return from this project. The expected expenditures on fixed assets required to complete the U.S. facilities to manufacture specialty compounds for wire and cable customers and specialty compounds for pipe customers are now expected to exceed the original estimate of $25 million by $3.5 million.

The Company has entered into an underwriting agreement and filed a prospectus relating to the issue of 2,350,000 common shares (subject to increase up to 2,467,000 common shares if the underwriters exercise their over-allotment option) for estimated net proceeds of $23.9 million ($25.1 million if the over-allotment option is fully exercised). The issue is scheduled for completion in March 1998.

The Company is also negotiating a $30 million increase in the revolving bank term facility. The availability of this additional facility is subject to conditions including the completion of this offering and re-negotiation of certain financial ratios required to be maintained under debt agreements. The Company expects that the net proceeds of this offering, proceeds of the increased credit facility and internally generated funds will be adequate to meet the Company's cash requirements to complete the current expansion program in the fourth quarter of 1998.

Financial Risk Management

A substantial portion of the Company's revenues are denominated in U.S. dollars and are exposed to fluctuations in the exchange values of the Canadian dollar. In 1997, the Company's average rate for conversion of U.S. dollar sales was $1.3631 Canadian dollars for each U.S. dollar. The Company's debt obligations denominated in U.S. dollars provided a partial hedge against a rising Canadian dollar. In addition, the Company has sold forward U.S. $67 million for delivery in 1998 at $1.3616 Cdn. and U.S. $85 million for delivery in 1999 at $1.3639 Cdn. and $50 million for delivery in the first four months of 2000 at $1.3765. The Company believes that it has hedged approximately 75% of its exposure in 1998 and 1999.

Year 2000

The year 2000 computer problem poses a challenge to all businesses. The problem arises because most existing computer systems and microprocessors cannot accurately interpret dates beyond 1999. This situation affects major areas of the Company's operations including order-taking, production scheduling, process control, shipping and invoicing. The Company is significantly advanced in the planning of hardware and software remedial measures to resolve this problem and has commenced implementation. The Company is making arrangements to retain one or two additional contract programmers to supplement its existing staff resources to the extent required to effect implementation. The Company has the backup hardware and software necessary to run its information processing operations in tandem for the purpose of testing its redesigned information processing systems to adequately ensure function prior to full implementation. The Company plans to have discussions with its major suppliers to inform itself of the adequacy of their remedial measures to address the Company's needs.

Management expects that these changes and modifications will be completed and tested by December 31, 1998. The Company currently estimates that the costs of implementation will not exceed $750,000.

Environmental

The environmental remediation program undertaken at the Edmonton site when the business was purchased in 1989 is now considered complete. Ongoing environmental activities will be included in normal plant operations and are budgeted at approximately $250,000 a year. The Company does not believe it has any significant environmental issues at other plant sites.

Outlook

The economic outlook for the plastics raw materials industry is moderately unfavourable for 1998 and 1999. Substantial new capacity for ethylene and commodity polymers will be coming on stream in 1998 and some weakening in prices is expected for these products depending on world economic growth. However, little new capacity worldwide has been announced for medium and high EVA copolymers. In times of cyclical overcapacity for the petrochemical and plastics industry, specialty products such as those produced by the Company can be expected to have more stable pricing and higher margins than may be experienced by commodity producers.

The financial problems in Asia continue to be a concern. However, demand in North America and Europe for product lines produced in Asia and using the Company's copolymers, notably sports shoes, remains strong. Although some disruption in copolymers shipments to some countries in Asia is possible due to financial concerns, management expects that alternative production arrangements elsewhere by shoe manufacturers would be made in order to meet the demand for these product lines.

In 1998, the Company expects growth in sales in the Polymers business from Flexet™ pipe compounds, and later in the year from PowerGuard™ medium voltage insulation compounds and EVA copolymers, when the PowerGuard™ specialty compound and the copolymers part of the expansion program come on stream in late summer and fall respectively. However, sales of copolymers and PowerGuard™ compounds will be constrained until this new capacity comes on stream.

The outlook for the downstream plastics processing industry is quite positive as it is not subject to the same swings in capacity utilization. Low raw material costs in an economic downturn make this part of the plastics industry more competitive with alternative materials such as paper, glass and aluminum.

Output limitations experienced in 1997 with the expansion of the Edmonton films plant have been largely eliminated. The Packaging business will have new facilities fully on stream in the second quarter and is experiencing strong demand for its products.

1998 will continue to be a transition period for the Company as it prepares itself to become a much larger company to supply the strong demand for its range of products.

Management's discussion and analysis includes forward-looking statements which involve risks and uncertainties, including but not limited to selling prices and raw material costs, economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices, and other factors discussed in the filings with the U.S. Securities and Exchange Commission and Canadian regulatory authorities.

management's responsibility for financial statements

The accompanying consolidated financial statements of AT Plastics Inc. and financial information in the annual report are the responsibility of management.

The financial statements have been prepared by management in accordance with generally accepted accounting principles, with the most significant set out in Note 1 to the financial statements. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis to ensure that financial information is presented fairly in all material respects.

The accounting procedures and related systems of internal control are designed to provide reasonable assurance that the assets are safeguarded and financial records are reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements, on the recommendation of the Audit Committee. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors. The Audit Committee is appointed by the Board and all its members are non-executive directors.

The consolidated financial statements have been audited by Deloitte & Touche and their report is presented below.

J.G. Clarke

J.G. (Geoff) Clarke
President & Chief Executive Officer

J.B. Donaghy

James B. Donaghy
Vice President, Finance & Chief Financial Officer

auditors' report

To the shareholders of AT Plastics Inc.

We have audited the consolidated balance sheets of AT Plastics Inc. as at December 31, 1997 and 1996 and the consolidated statements of operations and retained earnings and of changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Chartered Accountants
Toronto, Ontario
February 6, 1998

consolidated balance sheets

December 31, 1997 and 1996
(thousands of dollars)

	1997	1996
Assets		
Current		
Cash and short-term investments	$ 411	$ 15,226
Accounts receivable	31,809	29,608
Inventory (Note 2)	47,426	41,115
Prepaids	906	1,320
	80,552	87,269
Fixed (Note 3)	255,419	173,351
Other (Note 4)	22,225	12,766
	$ 358,196	$ 273,386
Liabilities		
Current		
Accounts payable	$ 30,362	$ 25,045
Current portion of long-term debt (Note 5)	8,351	6,849
	38,713	31,894
Long-term debt (Note 5)	149,362	83,957
Other liabilities	–	631
Deferred income taxes	15,628	9,999
	203,703	126,481
Shareholders' Equity		
Capital stock (Note 6)	128,404	128,404
Retained earnings	26,089	18,501
	154,493	146,905
	$ 358,196	$ 273,386

Approved by the Board

H G Pearce   John Abell

Gordon Pearce
Director

John Abell
Director

consolidated statements of operations and retained earnings

Years ended December 31, 1997 and 1996
(thousands of dollars, except per share amounts)

	1997	1996
Sales	$ 218,644	$ 210,941
Cost of sales and other expenses	182,582	171,466
Income before the undernoted items	36,062	39,475
Less		
Interest on long-term debt	7,785	9,104
Depreciation and amortization	9,741	9,732
Other interest income	(136)	(1,024)
Other (income) expense	1,642	(757)
	19,032	17,055
Income before income taxes	17,030	22,420
Income taxes (Note 7)		
Current	1,060	1,016
Deferred	5,629	7,242
	6,689	8,258
Net income for the year	10,341	14,162
Retained earnings at beginning of year	18,501	6,968
Dividends	(2,753)	(2,629)
Retained earnings at end of year	$ 26,089	$ 18,501
Net income per share (Note 8)	$ 0.68	$ 0.98

consolidated statements of changes in financial position

Years ended December 31, 1997 and 1996
(thousands of dollars)

	1997	1996
Cash from (used in)		
Operations		
Net income for the year	$ 10,341	$ 14,162
Add items charged to income not affecting cash		
Depreciation and amortization	9,741	9,732
Deferred income taxes	5,629	7,242
Amortization of exchange on long-term debt	462	382
Write-off of discontinued projects	877	–
Gain on redemption of preferred shares	–	(817)
Cash flow before change in working capital and other liabilities	27,050	30,701
Change in non-cash working capital and other liabilities	(3,412)	(8,377)
	23,638	22,324
Financing activities		
Senior debentures issued	70,000	–
Long-term debt repaid	(6,070)	(6,782)
Common shares issued	–	29,897
Preferred shares redeemed	–	(2,183)
	63,930	20,932
Dividends paid	(2,753)	(2,629)
Investing activities		
Purchase of fixed assets	(92,612)	(31,174)
Change in other assets	(7,018)	(2,088)
	(99,630)	(33,262)
Increase (decrease) in cash during year	(14,815)	7,365
Cash and short-term investments at beginning of year	15,226	7,861
Cash and short-term investments at end of year	$ 411	$ 15,226

1. Significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

Inventory

Inventory is valued at the lower of average cost and net realizable value. Work in progress and manufactured goods include the cost of raw materials, variable labour and manufacturing overheads.

Fixed assets

Fixed assets are recorded at cost. The Company reviews the useful lives of assets on a regular basis. Depreciation is provided over the following expected asset lives on a straight-line basis:

Buildings	15 – 25 years
Plant equipment	12 – 18 years
Computers, furniture and office equipment	2 – 5 years
Assets under construction – in operation	12 – 18 years

Depreciation is not provided on assets under construction which are not in operation.

The Company capitalizes interest on major assets under construction which are not in operation.

Pension costs and obligations

The Company maintains non-contributory defined benefit pension plans which cover substantially all of its employees. The plans provide pensions based on length of service and the best three years' average earnings.

According to actuarial reports, which are based on projections of employees' compensation levels to the time of retirement, the present value of the accrued pension benefits and the net assets available to provide for these benefits, at market value, as of December 31 are as follows:

(thousands of dollars)	**1997**	1996
Accrued pension benefits	**$ 34,665**	$ 30,313
Pension fund assets	**$ 40,886**	$ 34,416

The Company's pension expense under these plans is $460,700 (1996 – $746,000). The difference between the amount expensed and the funding contributions has been reflected in the balance sheet in other assets.

The Company's registered pension plans had no unfunded actuarial liability as at January 1, 1997 based on the most recent estimate provided by the Company's actuaries.

The Company also has a voluntary money purchase retirement savings plan.

Development costs

Product development costs are deferred and amortized on a straight-line basis over a maximum period of five years commencing when full commercial production is achieved.

Goodwill

Goodwill represents the excess of the purchase price over the assigned values of assets acquired. Goodwill is amortized on a straight-line basis over 15 years. The balance is reviewed on an annual basis and in the event of a permanent impairment to goodwill, such as a material change in the business practices or significant operating losses, the Company will record a reduction in the unamortized portion of goodwill.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of

assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Inventory

(thousands of dollars)	1997	1996
Raw materials	$ 11,982	$ 11,179
Work in progress	6,737	4,476
Finished goods	28,707	25,460
	$ 47,426	$ 41,115

3. Fixed assets

(thousands of dollars)		1997	
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 10,237	$ –	$ 10,237
Buildings	31,754	12,290	19,464
Equipment	195,698	81,615	114,083
Construction in progress	112,117	482	111,635
	$ 349,806	$ 94,387	$ 255,419

(thousands of dollars)		1996	
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 10,235	$ –	$ 10,235
Buildings	30,363	11,136	19,227
Equipment	177,910	73,731	104,179
Construction in progress	39,921	211	39,710
	$ 258,429	$ 85,078	$ 173,351

During the year, interest on construction in progress in the amount of $3,160,000 (1996 – $343,000) was capitalized.

4. Other assets

(thousands of dollars)		1997	
	Cost	Accumulated Amortization	Net Book Value
Deferred pension costs	$ 6,165	$ –	$ 6,165
Development costs	9,111	1,675	7,436
Deferred exchange	5,515	1,320	4,195
Deferred financing costs	2,439	184	2,255
Goodwill	1,109	222	887
Investment tax credits recoverable	1,287	–	1,287
	$ 25,626	$ 3,401	$ 22,225

(thousands of dollars)		1996	
	Cost	Accumulated Amortization	Net Book Value
Deferred pension costs	$ 3,878	$ –	$ 3,878
Development costs	6,467	1,055	5,412
Deferred exchange	2,539	859	1,680
Goodwill	1,109	148	961
Investment tax credits recoverable	835	–	835
	$ 14,828	$ 2,062	$ 12,766

5. Long-term debt

The Company has the following long-term debt outstanding as of December 31:

(thousands of dollars)	Interest rate %	Maturity dates	**1997**	1996
Senior secured notes ($U.S.)	9.95	December 30, 2003	**$ 84,162**	$ 86,897
Senior secured note	10.293	December 30, 2003	**3,334**	3,600
Senior secured debentures	See below	March 31 and September 30, 2009	**70,000**	–
Obligation under capital leases	See below	December, 1998 and September 2000	**217**	309
			157,713	90,806
Less current portion			**8,351**	6,849
			$ 149,362	$ 83,957

The senior secured notes ($U.S.) are denominated in U.S. dollars ($58,838,000) and translated into Canadian dollars at the balance sheet date exchange rate.

The senior secured debentures are comprised of two tranches of $30,000,000 and $40,000,000 with interest at 7.87% and 7.05%, respectively.

The obligation for computer equipment under capital leases is net of interest imputed at 8%. The computer equipment has a cost of $2,273,743 (1996 – $2,217,000) and accumulated depreciation of $2,231,186 (1996 – $2,217,000).

Repayment provisions

The required principal repayments are as follows (based on the $U.S. exchange rate as at December 31, 1997):

(thousands of dollars)	
1998	$ 8,351
1999	11,708
2000	12,829
2001	14,005
2002	15,160
Thereafter	95,660
	$ 157,713

Committed bank credit facility

In addition to the above long-term debt, the Company has a $75,000,000 committed revolving credit agreement. As at December 31, 1997, no amount was drawn on this facility.

Security

The senior secured notes, debentures and revolving bank credit facility are secured by a first fixed and floating charge on the assets of the Company and the assignment of proceeds from insurance claims.

6. Capital stock

Authorized

Unlimited Class I and II preferred shares

Unlimited Common shares

Issued and fully paid

(thousands of dollars)	**1997**		1996	
	Number of shares	**Amount**	Number of shares	Amount
Common shares	**15,293,416**	**$ 128,404**	15,293,416	$ 128,404

As of December 31, 1997, options to purchase 564,576 (1996 – 442,737) common shares at exercise prices between $9.00 and $13.95 were outstanding. These options are exercisable over time and expire between January 2004 and May 2007.

During 1996, the Company issued 2,625,000 common shares for net proceeds of $29,897,000. The Company recorded a tax benefit to capital stock of $840,000 relating to the expenses for the offering.

During 1996, the Company redeemed the outstanding Class II preferred shares for $1,800,000 and the assumption of certain environmental liabilities.

Shareholder rights plan

The Company has adopted a Shareholder Rights Plan ("Rights Plan") to ensure that any takeover bid made for the shares of the Company would be made to all shareholders, treat all shareholders fairly and equally, and provide the Board of Directors with sufficient time to consider any such offer. The Rights Plan grants shareholders the right to acquire, under certain circumstances, additional common shares at a 50% discount from its current market price. The Company, at its option, may redeem each right at a nominal price or waive application of the Rights Plan. The Rights Plan, and any rights issued under it, will expire on September 23, 1999.

7. Income taxes

(thousands of dollars)	**1997**	1996
Income before income taxes	**$ 17,030**	$ 22,420
Income taxes at statutory income tax rates	**$ 7,605**	$ 10,010
Manufacturing and processing deduction	**(1,269)**	(1,550)
Large corporations tax	**790**	404
Other	**(437)**	(606)
	$ 6,689	$ 8,258

The Company has approximately $5,500,000 in non-capital losses for federal income tax purposes available to reduce future years' taxable income. These losses expire by 2000. The Company also has available to reduce future years' taxable income, unclaimed scientific research and experimental development expenditures of approximately $6,720,000, which can be carried forward indefinitely. The benefit of these losses and unclaimed expenditures has been recognized in these financial statements.

8. Net income per share

Net income per share has been calculated on the basis of income divided by the weighted average number of common shares outstanding. The weighted average number of shares for 1997 is 15,293,416 (1996 – 14,424,564).

9. Financial instruments

Off-balance sheet financial instruments

The Company enters into forward exchange contracts, in U.S. dollars, to hedge its sales. The Company believes that its exposure to credit, liquidity and cash flow risks for the contracts is minimal.

As the current replacement value of these outstanding financial instruments is not carried on the consolidated balance sheets, unrealized gains or losses are not recognized for changes in current replacement values.

Further information on outstanding financial instruments is as follows:

(thousands of dollars)	Notional Amounts Maturing in Less than 1 year	1 to 3 years	**1997 Total**	1996 Total
Forward exchange contracts	$ 67,000	$ 135,000	**$ 202,000**	$ 153,000

(thousands of dollars)	Current Credit Exposure **1997**	1996
Forward exchange contracts	**$ –**	$ 3,660

Current credit exposure is limited to the amount of the loss that would be incurred if all of the Company's counterparties were to default at the same time. The exposure shown above is the current replacement value of only those contracts which are in a gain position.

Fair value of financial instruments

The estimated fair values of financial instruments as at December 31, 1997 and 1996 are based on relevant market prices and information available at the time. The fair values are not necessarily indicative of the amounts that the Company might receive or incur in actual market transactions. As a significant number of the Company's assets and liabilities, including inventory and fixed assets, do not meet the definition of financial instruments, the fair value estimates below do not reflect the fair value of the Company as a whole.

(thousands of dollars)	**1997** Carrying Amount	**1997** Fair Value	1996 Carrying Amount	1996 Fair Value
Financial assets				
Assets for which fair value approximates carrying value	**$ 32,220**	**$ 32,220**	$ 44,834	$ 44,834
Off-balance sheet financial instruments	**$ –**	**$ –**	$ –	$ 3,400
Financial liabilities				
Liabilities for which fair value approximates book value	**$ 30,362**	**$ 30,362**	$ 25,045	$ 25,045
Long-term debt	**$ 157,713**	**$ 159,089**	$ 91,437	$ 89,339
Off-balance sheet financial instruments	**$ –**	**$ 10,353**	$ –	$ –

Cash and short-term investments, accounts receivable and accounts payable are all short-term in nature and as such, their carrying values approximate fair value.

The fair value of long-term debt was estimated based on discounted cash flows, using current market interest rates and the Company's credit rating at time of issuance of the original debt.

Off balance sheet financial instruments include forward exchange contracts. The foreign exchange instruments were valued based on the differential between contract rates and year end forward rates.

Concentration of credit risk

Accounts receivable are from customers widely dispersed primarily in North America. Significant individual customers comprise generally less than 5% of the outstanding balance at any time during the year.

10. Commitments

Operating leases

Under the terms of operating leases, the Company is committed to rental payments until expiry of leases as follows:

(thousands of dollars)	
1998	$ 2,473
1999	$ 2,491
2000	$ 2,184
2001	$ 1,412
2002	$ 1,290
Thereafter	$ 11,075

Purchases

The Company has agreed to purchase 70,290 tonnes of ethylene per year until the end of 1998, under a cost of service, take or pay contract. The Company has entered into a new 15 year cost of manufacture-related ethylene supply contract commencing in 1999 for approximately 125,000 tonnes per year under a limited take or pay arrangement.

Fixed assets

The Company has issued purchase orders totalling approximately $48,000,000 at December 31, 1997 in connection with various expansion projects. Included in cash and short-term investments is $609,000, representing funds segregated for a holdback on construction relating to a plant expansion.

Forward exchange contracts

The Company has committed to sell U.S. $202,000,000 through forward exchange contracts at varying rates through December, 2000.

11. Segmented information

Segmented industry information is not provided as the Company is considered to operate in one industry. Export sales were as follows:

(thousands of dollars)	**1997**	1996
United States	**$ 140,887**	$ 129,383
Other	**20,723**	24,182
	$ 161,610	$ 153,565

12. Comparative figures

Certain of the comparative figures have been reclassified to conform with the current year financial statement presentation.

13. Reconciliation of Canadian GAAP to U.S. GAAP

The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("CDN GAAP"), which conform in all material respects with United States generally accepted accounting principles (U.S. GAAP), except as described below:

A. i) The Company has forward exchange contracts to sell U.S. dollars at varying rates, which are accounted for as hedges under CDN GAAP. Under U.S. GAAP, these contracts are not considered hedges, and gains and losses are determined at the reporting date and recorded in net income for the year.

ii) Under CDN GAAP, unrealized translation gains and losses at the reporting date on long-term debt denominated in a foreign currency are deferred and amortized over the term of the debt. Under U.S. GAAP, these gains and losses are recorded in net income for the year.

B. The Company expenses the cost of post-retirement benefits as incurred. For U.S. GAAP purposes, the Company is considered to have adopted Financial Accounting Standards Board statement 106, covering post-retirement benefits other than pensions, from December 15, 1992. The effect of this is to recognize the accrued liability and current service costs earlier.

C. Certain costs for product development which satisfy specified criteria for recoverability are deferred and amortized. Under U.S. GAAP, these costs, including fixed assets used only for product development, are expensed as incurred.

D. For U.S. GAAP purposes, the Company is considered to have adopted Financial Accounting Standards Board statement 109, covering income taxes, from December 15, 1992. The effect of this was to recognize benefits of losses and timing differences earlier. There is no difference in tax expense between CDN GAAP and U.S. GAAP in 1997 or 1996 other than the tax effect on other reconciling items.

E. The following disclosures are applicable under U.S. GAAP. The Company reviews the useful lives of operating assets on a regular basis. The result of these reviews decreased the depreciation expense for 1997 by $2,985,000 (1996 – $2,704,000). The Company paid income taxes of $1,160,000 (1996 – $1,730,000) and interest of $10,059,000 (1996 – $9,479,000). The allowance for doubtful accounts is $417,000 (1996 – $733,000).

F. Under U.S. GAAP, dividends are considered a financing activity on the statement of changes in financial position.

G. Under U.S. GAAP, the gain on settlement of preferred shares is considered an extraordinary item.

The following table reconciles net income for the year as reported in the consolidated statements of operations to what would have been reported had the financial statements been prepared in accordance with U.S. GAAP as described above.

(thousands of Canadian dollars, except per share amounts)	**1997**	1996
Net income for the year (CDN GAAP)	**$ 10,341**	$ 14,162
Adjustments		
Foreign currency (A)	**(16,268)**	2,559
Post-retirement benefits (B)	**(441)**	(474)
Development costs (C)	**(1,994)**	(1,657)
Deferred income taxes (D)	**6,920**	(158)
Gain on settlement of preferred shares (G)	**–**	(817)
	(11,783)	(547)
Net income (loss) before extraordinary item in conformity with U.S. GAAP	**(1,442)**	13,615
Extraordinary item in conformity with U.S. GAAP (G)	**–**	817
Net income (loss) in conformity with U.S. GAAP	**$ (1,442)**	$ 14,432
Basic net income (loss) per common share before extraordinary item	**$ (0.09)**	$ 0.94
Basic net income (loss) per common share	**$ (0.09)**	$ 1.00

The following table indicates the items in the consolidated balance sheets that would be affected had the financial statements been prepared in accordance with U.S. GAAP as described above. The revised amounts would be as follows:

(thousands of Canadian dollars)		**1997**	1996
Assets	10		
Other current assets		**$ –**	$ 305
Fixed assets	92 (368)	**255,051**	172,953
Other assets	92 (11,189)	**11,036**	9,105
Liabilities and shareholders' equity (17,005)			
Accounts payable		**$ 14,743**	$ 12,639
Accrued liabilities		**15,619**	16,942
Other current liabilities	7 ii² 4,180	**4,180**	–
Other long-term liabilities	ii² 11,956	**11,256**	5,167
Deferred income taxes	8 (9,988)	**5,640**	6,931
Retained earnings	(17,005)	**9,084**	13,279

In addition, the opening retained earnings at January 1, 1996 would have been $1,476,000 under U.S. GAAP compared to $6,968,000 under CDN GAAP.

A description of certain of the Company's governance practices pursuant to the requirements of The Toronto Stock Exchange is summarized in this statement of corporate governance practices. The described practices are of long standing and pre-date the Exchange's disclosure requirements.

General Authority and Duty of the Board

The Company's eight member Board has the authority and duty to supervise the management of the Company's business and affairs.

Establishment and Implementation of Corporate Objectives

Management has primary responsibility for establishing objectives for the Company. The objectives are designed to exploit opportunities available to the Company and to diminish the risks to which its business is subject so as to enhance returns to shareholders. Management regularly reviews the objectives to ensure that they are in keeping with the state of the Company's development and the markets in which it operates. Management reviews and revises the objectives with the Board which considers and approves them and monitors progress towards their achievement.
The current objectives are set out on page 3 of this report. In pursuit of these objectives, management prepares an annual business plan and a three-year financial forecast which includes annual operating and capital budgets. The business plan and forecast are reviewed and approved by the Board prior to the commencement of each year. The approval of the business plan and budget establish the authority of senior management to take the actions indicated in the Plan and their responsibility for implementation. Monthly reports are distributed to the Board, and at quarterly directors' meetings, management reviews with the Board the progress of the Company in meeting the plan and budget and financial reports for release to the public.

The Audit Committee

The Board recognizes the importance of maintaining effective internal financial and other controls, sound management information systems and timely consistent financial reporting. The Board has delegated the oversight of management's performance of these functions to a three member Audit Committee, all of whom are independent and who are selected for their ability and experience with these functions.

The Committee meets at least three times annually with the Company's auditors to review their annual planning for the audit of the Company's accounts, to monitor the progress of the audit and to review the auditors' report and recommendations. The Committee also approves all other financial information prepared by management for public release.

Human Resources and Compensation Committee

The Board regards the selection and compensation of senior management as an important element of meeting the Company's objectives. It has delegated this function to a four member Human Resources and Compensation Committee, consisting of three non–executive members and the Chief Executive Officer. The Committee, with the assistance of independent consultants, considers compensation for senior management which is designed to reward effort, reflect the Company performance in relation to current objectives and be consistent with market rates of compensation. The Committee also meets annually with the Chief Executive Officer to review with him the corporate objectives and the management functions for which he is personally responsible and has the opportunity to discuss the performance and compensation of the CEO in his absence.

Board Composition and Independence

To the Board's knowledge, no person holds more than 15% of the Company's issued common shares. The Board believes that a small board functions most effectively and that it is appropriate that up to three of its eight members be from senior management. As vacancies arise on the Board, the Board considers appropriate candidates having regard for such factors as their availability to dedicate required time to Board and Committee activities, their experience as directors of reporting issuers, the expertise they bring to the Company's activities, their independence of mind and their ability to effectively serve shareholder interests. Proposed candidates are provided with sufficient information, including these policies and practices, to enable them to make an informed decision as to whether they are willing and able to accept the associated responsibilities. The Board seeks to establish director compensation for serving on the Board and Committees in keeping with comparable companies.

The Board has sought to ensure that a majority of its members are independent of management and free from relationships which could reasonably be regarded as materially interfering with the directors' ability to act independently. Adherence to the foregoing policies maintains the independence of the Board from management.

Given the small size of the Board, the selection process and the foregoing policies, the Board does not regard the establishment of separate governance or nominating committees or a director education program or position description or a formal procedure for enabling individual directors to engage outside advisors at Company expense as meaningful. These activities are the responsibility of the full Board.

directors

John P. Clarke
President,
Emral Enterprises Ltd.,
Roxboro, Québec.
Director since 1994.
Member of the Audit Committee.

Z. Sam Ruttonsha
Vice President,
Royal Bank Capital Corporation,
North York, Ontario.
Director since 1991.
Member of the Human Resources and
Compensation Committee.

Allan E. Scott
President and Chief Operating Officer,
TELUS Communications,
Edmonton, Alberta.
Director since 1996.

John N. Abell
Corporate Director,
Wiltshire, England.
Director since 1993.
Member of the Audit
and Human Resources
and Compensation
Committees.

H. Gordon Pearce
President,
Pearce Consulting Services Ltd.,
Calgary, Alberta.
Director since 1994.
Member of the Audit Committee.

J.G. (Geoff) Clarke
President and
Chief Executive Officer,
AT Plastics Inc.
Director since 1989.

James B. Donaghy
Vice President, Finance, Chief Financial Officer
and Corporate Secretary,
AT Plastics Inc.
Director since 1991.

I. Alan Litvak Ph.D
Professor of Business and Public Policy,
Schulich School of Business, York University,
Toronto, Ontario.
Director since 1995.
Member of the Human Resources and
Compensation Committee.

officers

J. G. (Geoff) Clarke
President and
Chief Executive Officer

Glen D. Herring
Vice President and
General Manager, Polymers

Azizul (Sam) Hasan
Vice President and
General Manager, Films

V. Peter Johnson
Vice President,
Human Resources

William Connelly
Vice President and
General Manager, Packaging

James B. Donaghy
Vice President, Finance,
Chief Financial Officer
and Corporate Secretary

financial summary

six - year financial summary

(millions of dollars except per share amounts)	1992	1993	1994	1995	1996	**1997**
Sales	156.1	157.5	184.6	204.8	210.9	**218.6**
Net Income (Loss)	(5.8)	(7.7)	15.0	24.3	14.2	**10.3**
Net Income per share – ($) reported	–	–	1.29	1.92	0.98	**0.68**
Net Income per share – ($) fully taxed	–	–	0.85	1.41	0.98	**0.68**
Cash Flow per share ($)	–	–	1.98	3.13	2.13	**1.77**
Total Assets	214.6	206.9	217.6	231.7	273.4	**358.2**
Shareholders' Equity	4.7	(3.0)	82.6*	104.6*	146.9	**154.5**
Dividends per share ($)	–	–	0.135	0.18	0.18	**0.18**

* restated to be comparable to 1996 and 1997 presentation

fiscal 1997 quarterly performance

(millions of dollars except per share amounts)	**1st**	**2nd**	**3rd**	**4th**
Sales	**47.0**	**58.3**	**57.2**	**56.1**
Net Income	**1.9**	**2.6**	**3.7**	**2.1**
Net Income per share – ($) reported	**0.13**	**0.17**	**0.24**	**0.14**
Cash Flow per share ($)	**0.36**	**0.50**	**0.52**	**0.38**

fiscal 1996 quarterly performance

(millions of dollars except per share amounts)	1st	2nd	3rd	4th
Sales	46.3	54.0	59.2	51.5
Net Income	2.5	4.7	3.9	3.0
Net Income per share – ($) reported	0.20	0.32	0.26	0.20
Cash Flow per share ($)	0.53	0.64	0.57	0.40

fiscal 1997 common share performance

(dollars per share)

Quarter Ended	**1st**	**2nd**	**3rd**	**4th**
High	**13.85**	**13.45**	**15.00**	**13.95**
Low	**12.50**	**11.10**	**12.45**	**10.90**
Close	**12.90**	**13.00**	**13.60**	**11.50**

glossary

Barrier Film – Plastic film with good resistance to permeation of gases, oils or liquids.

Batch Incorporation – Process whereby the packaging is dispersed with its contents in manufacturing the customer's product.

Compound – A mechanical mixture of a polymer or copolymer with other additives such as anti-oxidants and U.V. stabilizers.

Copolymer – Polymer formed from two monomers.

Ethylene – Principal raw material (monomer) for polyethylene and for EVA and EVS copolymers.

EVA Copolymer (EVA) – Copolymer in which the primary monomer is ethylene and the secondary monomer is vinyl acetate.

EVS Copolymer (EVS) – Copolymer in which the primary monomer is ethylene and the secondary monomer is vinyl silane.

Film – A sheet of plastic usually less than 0.25 millimetres in thickness.

HDPE – High density polyethylene produced from ethylene in a low pressure process.

High EVA Copolymer – Refers to EVA copolymer with vinyl acetate content greater than 18% by weight.

Homopolymer – Polymer produced from a single monomer.

LDPE – Low density polyethylene; homopolymer produced from ethylene in a high pressure process.

LLDPE – Linear low density polyethylene; polymer of ethylene produced in a low pressure process with a lower density than HDPE.

Liner Grade – Multi-purpose commodity grade of polyethylene.

Low EVA Copolymer – Refers to EVA copolymer with vinyl acetate content between 5% and 8% by weight.

Medium EVA Copolymer – Refers to EVA copolymer with vinyl acetate content between 9% and 18% by weight.

Monomer – Chemical building block from which polymer is formed.

Oriented Film – A plastic film which has been mechanically stretched to enhance strength.

Polymerization – The chemical bonding of monomer molecules to form a polymer.

Polyethylene – Plastic formed from the polymerization of ethylene.

Polymer or Resin – A product made from the polymerization of monomers such as ethylene and vinyl acetate.

Thermoplastic – A plastic which will melt and can be reformed under the influence of heat.

Tree Retardant – This refers to the type of insulation breakdown which occurs over time and under voltage stress in the presence of moisture. Failure shows up as a tree-like appearance on the insulation, when viewed under a microscope.

Valve Sack – A sack with a built-in, self-closing valve opening for filling.

Vinyl Acetate (VA) – A monomer copolymerized with ethylene to produce EVA copolymers.

Vinyl Silane (VS) – A monomer copolymerized with ethylene to produce EVS copolymers.

shareholder information

Auditors
Deloitte & Touche

Legal Counsel
Aird & Berlis (Canada)
White & Case (U.S.)

Incorporated
1989

Banks
Royal Bank of Canada
Canadian Imperial Bank
of Commerce
National Bank of Canada

Investor Relations
James Donaghy
Vice President, Finance,
Chief Financial Officer
and Corporate Secretary

Stock Exchanges
The Toronto Stock Exchange
(Symbol ATP)
American Stock Exchange
(Symbol ATJ)

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Annual Meeting Notice
Thursday, April 30, 1998
11:30 a.m. The Ridout Room
The Board of Trade
First Canadian Place
77 Adelaide Street West
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M5X 1C1

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Shareholders Services
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Common Shares Outstanding
15,293,416 as at December 31,1997

Research Analyst Coverage:

Canada
CIBC Wood Gundy Securities
First Marathon Securities
Levesque Beaubien Geoffrion
Midland Walwyn Capital
Newcrest Capital
ScotiaMcleod
Sprott Securities
Yorkton Securities

U.S.
First Analysis Corporation

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corporate directory

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AT Plastics' mission is to be a profitable, growing, environmentally responsible, international manufacturer of high-quality specialty plastics, deploying advanced technologies and innovative solutions to meet the needs of its valued customers.

AT Plastics